DOCUMENT RESUME

ED 440 260 CE 080 022

AUTHOR	Bernhardt, Annette
TITLE	The Future of Low-Wage Jobs: Case Studies in the Retail Industry. IEE Working Paper No. 10.
INSTITUTION	Columbia Univ., New York, NY. Inst. on Education and the Economy.
SPONS AGENCY	William T. Grant Foundation, Washington, DC. Commission on Youth and America's Future.
PUB DATE	1999-03-00
NOTE	51p.; For the working-paper summary, see CE 080 023.
CONTRACT	95-1688-95
AVAILABLE FROM	Institute on Education and the Economy, Box 174, Teachers College, Columbia University, New York, NY 10027. Tel: 212-678-3091; Fax: 212-678-3699; e-mail: iee@columbia.edu. For full text: http://www.tc.columbia.edu/~iee.
PUB TYPE	Reports - Research (143)
EDRS PRICE	MF01/PC03 Plus Postage.
DESCRIPTORS	Adult Education; Career Development; Career Education; Case Studies; Economic Change; Economic Status; Educational Opportunities; Employer Employee Relationship; Employment Level; Employment Opportunities; *Employment Patterns; *Employment Practices; Entry Workers; Fringe Benefits; Futures (of Society); *Industrial Structure; Influences; Job Training; Labor Force Development; Labor Market; *Low Income; Minimum Wage; *Occupational Mobility; *Retailing; Salary Wage Differentials; Technological Advancement; Trend Analysis
IDENTIFIERS	Customer Services; Global Economy; *Wal Mart

ABSTRACT

The future of low-wage jobs is examined through a case study of firm restructuring in the retail industry. The study confirms that the retailing sector has come to be dominated by the Wal-Mart model, which emphasizes an efficient technology-driven inventory management system and a human resource approach that includes the following elements: dead-end sales jobs with starting pay at or near minimum wage; small, nonguaranteed raises; constantly changing work schedules that define full-time employment as 28 hours per week; and few fringe benefits. Many analysts argue that a human resource strategy based on improving workers' skills and input could be viable in retail trade, yet the Wal-Mart model stresses fast service and cheap products rather than sales staff trained to provide quality customer service. Although technology has enabled the Wal-Mart model of efficiency, it has generally resulted in the elimination of sales and stocking jobs rather than in the upskilling of front-line retail jobs. Because retail workers receive an average of only 7 hours of training, they acquire few valuable skills that can be taken to the open market. Retail workers' upward mobility is also quite limited as firms are increasingly hiring outside workers to fill managerial slots. (Contains 66 references.) (MN)

Reproductions supplied by EDRS are the best that can be made
from the original document.

ED 440 260

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
☑ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

The Future of Low-Wage Jobs: Case Studies in the Retail Industry

Annette Bernhardt

IEE Working Paper No. 10
March 1999

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL HAS BEEN GRANTED BY
J. D'Alvia
TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
1

CE080022

BEST COPY AVAILABLE

The Future of Low-Wage Jobs: Case Studies in the Retail Industry

Annette Bernhardt

IEE Working Paper No. 10
March 1999

Prepared as part of a final report to the William T. Grant Foundation, for project No. 95-1688-95, *Economic Opportunity in Low-Wage Service Industries.*

EXECUTIVE SUMMARY

America's shift to an economy based on knowledge and technology continues to color our perceptions of the future of work. Yet for all the talk of high-tech jobs, the average American worker has not seen significant gains in well being. While the business press abounds with examples of innovative companies that create good quality jobs, just as prevalent are low-wage strategies and the substitution of contingent for full-time workers. New generations are entering a transformed labor market, and the wage inequity they face is not going to disappear unless explicitly addressed. This will be accomplished by a better understanding of how firms have responded to heightened competition and the effect on job design, skill requirements, training, and wages.

This study looks at firm restructuring in a service sector that has been neglected by researchers – retail trade industries. More than one in six Americans (18.1%) currently holds a retail job and projections indicate that the sector will continue to serve as a mainstay of employment. Yet job quality ranks at the bottom of all major industries. Retail trade therefore affords us a window on low-wage firms and the future of workers without a college degree.

Upheaval in the Retail Industry

Retailing has changed radically from the small mom-and-pop stores of the first half of the century, so that large firms and mass discounters now dominate. Cost containment is the absolute bottom-line, competition is unceasing, and margins are razor-thin. What has this new environment meant for firm strategies, and by extension, for worker outcomes?

It should come as no surprise that the high-performance workplace has not come to dominate the retail sector. A rough but telling indicator is job quality. Retail wages have fallen

significantly over the last thirty years, and part-time work has become the archetype of retail employment. Only a third of full-time workers had pension coverage in 1993, and less than two-thirds of employers sponsored health plans. These are not indicators of a high performance strategy focused on rewarding skilled workers for their input.

The Ascent of the Wal-Mart Model

And yet, the firm strategies, which do dominate, can also not be considered low road. The leading retail strategy today is the Wal-Mart model. It is characterized by an extremely efficient production process, where the operations that make up the heart of retailing – buying products, distributing them to stores, and selling them to customers – are streamlined and linked in one continuous "just-in-time" chain. Wal-Mart pioneered the concept of using technology to manage inventory, and in recent years has invested some $600 million in its information system.

In contrast to this taut efficiency, little attention is paid to the human resource side of the equation. Sales jobs are low-wage and dead-end, raises are small but not guaranteed, and work schedules change constantly. "Full-time" is defined as 28 hours or more a week, in order to avoid overtime pay if workers stay late. Employees must contribute 40 percent from their own paychecks toward health insurance. Finally, there is no pension plan, and the profit-sharing plan is primarily invested in company stock, which has lost value in recent years.

With sales of $117.9 billion in 1998, Wal-Mart outperforms other retailers on almost all productivity measures, putting enormous pressure on the rest of the industry to follow suit. Thus what we see in retailing is a restructuring model based on technology and process, not on developing human resources. Nor is this likely to change. For example, what would convince McDonald's to shift its production-line system to one based on skilled workers, given the

enormous upstart costs and the amount of capital it has already sunk into designing its kitchen around low-skill labor?

Customer Service and Segmentation

Still, analysts argue that a human resource strategy based on improving the skills and input of workers could be viable in retail trade. This is because the industry has recently given much press to the idea that providing "quality customer service" is the new route to survival. However, two very different definitions of customer service have emerged. The first stresses personalized in-depth service. Nordstrom's sales workers, for example, build long-term relationships with their clientele, and Home Depot's sales staff gives customers detailed advice. By contrast, the second definition stresses fast service and cheap products that are always in stock. The market being tapped here, by Wal-Mart and others, is consumers who are pressed for time and know what they want.

These two routes to competing on the basis of "quality" service have markedly different effects on the workplace and on jobs. Because of their skills and training, workers at The Home Depot have autonomy, earn above-average wages, and almost all are full-time with benefits. None of these characteristics hold at the mass discounters or fast-food chains. Thus the two definitions of service, based on a segmentation of the customer market, are yielding a similar segmentation of job quality.

Technology and Its Selective Impact

If the push for quality service has generally not resulted in an upgrading of retail jobs, perhaps technology can do the job. Technology has had a profound impact on the retail industry, enabling the "just-in-time" linking of all parts of the production chain. Yet the actual tasks that

most retail workers perform have gone largely untouched. To the extent that sales workers have been affected, the most direct result has been to eliminate jobs. For example, the counting of products in stock, once done manually, is now done either automatically or by fewer workers using hand-held scanners. More time is spent on the selling floor – but often with tougher sales goals and electronic monitoring. Combined with the overall reduction in staffing, these practices have greatly increased stress levels. Thus while technology has enabled the Wal-Mart model of efficiency, it has generally not brought an upskilling of front-line retail jobs.

The Prospects for Career Mobility

Beyond the poor quality of most retail jobs, there is also the deeper question of opportunities for upward mobility. Workers who hold retail and other low-wage service jobs tend to be the least educated in the labor force and so depend on training for career mobility. Unfortunately, retailers train employees an average of only seven hours (last among 14 business sectors), and so workers acquire few valuable skills that they can take to the open market. Moreover, the industry has one of the flattest job hierarchies in the economy – sales and service occupations make up more than two-thirds of the jobs. Firms are also increasingly hiring young college graduates for managerial slots and bypassing workers with years of tenure. In this context, there is a severe constraint on upward mobility, no matter how talented or hard-working the individual.

These problems are not limited to the retail sector. A fundamental reorganization of the American workplace is underway, and the rules of mobility have changed. We might imagine that systems analysts and general managers could still find a career job or at least build real wage growth as they move between employers. For cashiers, salespersons, information clerks, nursing aides and orderlies, however, the prospects look less promising. The result may well be a cadre

of "migrant service workers" who move from one service job to the next, learning no new skills and achieving few wage gains with which to support their families.

TABLE OF CONTENTS

Executive Summary i

Table of Contents vi

The Link Between Firms and Inequality 1

The Case Study 4

Upheaval in the Retail Industry 6

The Ascent of the Wal-Mart Model 9

The Industry Follows Suit 14

Customer Service and Segmentation 17

The Effect on Workers 21

Technology and its Selective Impact 24

Discussion: The Prospects for Career Mobility 27

The Bigger Picture 32

References 34

THE LINK BETWEEN FIRMS AND INEQUALITY

Earlier this year Newsweek ran a special issue entitled "Your Next Job," a sort of worker's guide to the new millennium. The article focused on computer programmers, managerial consultants and independent contractors who hop from project to project, shape their own destinies, and in the process reap high-tech rewards. "It's a dynamic, ever-changing economy. Plenty of fast-growing, high-paying jobs didn't even exist just a few years ago. Who could have predicted the booming demand for Webmasters, desktop publishers and wireless engineers?" (McGinn & McCormick, 1999). Throughout the past three decades, this shift from an industrial economy to one based on knowledge and technology has been a recurring theme, one that continues to color our perceptions of the future of work.

Yet for all the talk of high-tech jobs, the average American worker has not seen significant gains in well being. The 1970s brought the onset of stagnant earnings and widespread displacement of manufacturing workers. By the 1980s, the evidence documented a declining middle class and an unprecedented, striking rise in wage inequality. The situation became especially alarming for parts of the African American and Hispanic population, with the emergence of the "underclass" and precipitous declines in labor force participation.[1] These trends continue to the present despite a strong economy and a tight labor market, prompting at least one observer to warn of an "apartheid" economy:

> Left unattended, the new inequality threatens us with a two-tiered society … in which the successful upper and upper-middle classes live fundamentally different from the working classes and the poor. Such an economy will function well for substantial numbers, but will not meet our nation's democratic idea of advancing the well-being of the average citizen. For many it promises the loss of the "American dream." (Freeman, 1997)

---

[1] For documentation of these trends, see Levy and Murnane (1992), Danziger and Gottschalk (1993), and Mishel, Bernstein, and Schmitt (1997).

Thus there is an acute disconnect between the ideal of post-industrialism and the actual trends in worker welfare, one that threatens to block a coherent policy discussion. While the business press abounds with examples of innovative companies that have created high quality and well-paid jobs, just as prevalent are low-wage strategies, deskilled jobs, the imposition of two-tiered wage systems, and the substitution of contingent for full-time workers. Such variability poses the critical question of how firm restructuring has affected the nature of work and opportunity in America. This question is no longer simply a matter of growing wage differentials, but increasingly about what it means to have a job and to build a career. The nature of competition, the structure of workplaces, wages and attachments to employers – all look very different now than they did at the height of industrial capitalism. There is a growing sense that the environment in which firms make choices and pursue competitive strategies has shifted, and that trends in the labor market are part of an unfolding system of industrial relations.

Compared to the post-war period, the American employment relationship appears to be changing – in how the workplace is organized, in how workers are matched with jobs, and in how wages and the terms of employment are set. We will continue to see strong effects on wages, working conditions, and upward mobility, effects that differ markedly depending on where in the labor market individual workers are located: "Perhaps the most important implications of the new employment relationship concern increased inequality in the workplace and, ultimately, in society as a whole" (Cappelli et al., 1997, p. 11).

Making the link between firm restructuring and wage inequality means going inside the proverbial "black box" of the firm. Against the backdrop of globalization and rapid technological change, it is ultimately changes in the workplace and in the nature of work that matter. This is where practical points of intervention will be found. But while there is an

established body of firm-level research, it has limited ability to speak to these issues. The field has traditionally focused on manufacturing industries and testing for the productivity effects of the "high performance" production model. This focus made sense in the 1980s, when America appeared to be losing its competitive edge in the world economy. Labor market outcomes for workers took a distinct second place, since it was often assumed that high wages would automatically follow from the new innovative work systems. Thus this literature tended to result in a simplistic division between firms that are high performance and those that are not, with considerable effort spent measuring the prevalence of the former and much less attention paid to what the latter are actually doing.[2]

In response to these limitations, we have recently seen a much-needed shift to the service sector, where after all the large majority of Americans currently works. In industries such as telecommunications, banking, airlines and healthcare, researchers are explicitly asking how economic restructuring has affected job quality.[3] Along the way, it has become clear that the concepts and conclusions surrounding the manufacturing sector do not easily transfer to the services setting. For example, the globalization of trade is at best a weak explanation for the stark increase in competition that has occurred in many service industries. A different set of forces has yielded a unique logic in firm strategies, which are increasingly focused on segmenting the customer market and often the jobs that service them. As well, the nature of service work is inherently different from that in manufacturing, making unclear in which direction technology will impact jobs or whether reforms such as work teams and quality circles are viable. Finally, the service sector has always had and continues to have a preponderance of low-wage, high-

---

[2] See Hays and Abernathy (1980), Dertouzos, Lester and Solow (1989), and Ichniowski et al. (1996).

[3] See, for example, Moss, Salzman and Tilly (1998), Bailey and Bernhardt (1997), Hunter (1998), Keltner and Finegold (1998), Bernhardt and Slater (1998), and Batt and Keefe (1998).

turnover firms, the success of which cannot be understood within the high-performance framework.

In sum, new generations of workers are entering a transformed labor market, and the wage inequity they now face is not going to disappear unless explicitly addressed. This will be accomplished by a better understanding of how firms have responded to heightened competition (especially in the service sector) and the effect on job design, skill requirements, training, and wages. It is this type of grounded information that will enable the development of public, private, and community-based policies to reverse the growth in inequality.

The Study[4]

This paper looks at a part of the service sector, which has so far been neglected by researchers: retail trade industries. More than one in six Americans currently holds a retail job. These 21.6 million Americans make up 18.1% of the total workforce and almost a quarter of the service sector. Combined with a projected growth rate of 10.4% to the year 2006, this means that retail jobs will continue to serve as a key source of employment for significant numbers of workers. Yet job quality in this sector exemplifies the root of policy concern. Employees in department stores, grocery stores, restaurants and fast-food chains do not rank high on the income ladder.[5] In 1997, for example, 31.7% of the working poor received their earnings from a retail job, as compared to 15.8% for the population as a whole (Bernstein & Hartmann, 1999). The stereotype of retail jobs – part-time, high turnover, low wages, no benefits – holds

[4] The following material draws on U.S. Department of Labor (1997), U.S. Department of Commerce (1992), U.S. Department of Labor (1996a), and U.S. Department of Labor (1996b).

[5] Restaurants and fast-food chains alone employ one in three retail workers – fueled by the growing numbers of working women and the consequent demand for ready-made food. To wit, the share of total food expenditures purchased away from home nearly doubled between 1972 (22%) and 1986 (42%), remaining relatively stable since then (Jacobs & Shipp, 1990).

considerable truth, although as we will see there is significant variation across specific industries. The sector is also heavily weighted toward front-line workers, more than any other in the economy is. In 1996, fully 93.6% of retail workers were non-managerial, making the opportunities for upward mobility a serious problem.

Moreover, women, youth, and minorities are over-represented in retail and have significantly changed the face of the sales workforce. In 1996, women constituted 51.2% of retail workers. While this is not much higher than the 46.2% average for all industries, women are in fact quite concentrated in industries such as apparel stores (rather than auto dealerships or furniture stores, continuing the historical segregation between "soft-lines" and "hard-lines"). Youth between the ages of 16 and 24 represent 32.2% of the retail workforce, double the national average, and the concentration of African American and Hispanic youth at the low end of retail establishments is even stronger.

Thus in the context of policy debates about how to address rising inequality, this sector affords us a window on low-wage employers and the future of workers without a college degree. Three broad questions guided our research: What changes have occurred in the competitive environment over the past several decades? How have firms responded? And how have worker outcomes been affected? The study consists of seven in-depth firm case studies in several retail industries (department stores, specialty stores, fast foods, and mass discounters), as well as detailed background research on the industries. The case studies were conducted over the past three years and entailed site visits and observation, interviews with managers at several levels, focus groups and one-on-one interviews with workers, and union representatives where applicable. The background research was equally intensive and entailed interviews with industry trade groups, searches through the voluminous industry trade literature and business press, and

analysis of national datasets on wage, compensation, and employment trends. A broad analysis of the results of this research is presented here – complementary articles on each of the case studies as well as related research on policy options and trends in upward mobility are cited throughout.

UPHEAVAL IN THE RETAIL INDUSTRY

It has become something of a mantra that the globalization of trade is the signal economic event of the past three decades. Globalization is seen as the fundamental driver behind increased competition and leaner firm strategies. It is also seen as a key contributor to the deterioration of the wage structure. In a world where production has no borders, the wage losses of less-skilled workers are consistently tied to their inability to compete with less expensive workers overseas. It is peculiar how prevalent this view is in the media, when in fact the large majority of Americans works in the service sector and has been doing so for some time now. Here the impact of globalization is much less clear, because the very nature of service jobs means that they are not "footloose" (Herzenberg, Alic, & Wial, 1998). Hotel room cleaners, bank tellers, nurses and doctors, hamburger flippers, secretaries, childcare workers, managers and sales staff must work on site and cannot be shipped overseas. Similarly, a hotel chain or retailer in New Orleans does not compete with firms in Singapore, but rather with others in the same region. This is not to say that service industries have been immune to globalization, and at the margins, specific operations such as data processing are indeed being outsourced. But the core of service delivery remains face-to-face interaction. To a significant degree, then, the forces that govern competition, product markets, and workplace strategies remain firmly rooted in the domestic sector (Shulman, 1996).

That said, competition has grown just as strongly in services as it has in manufacturing. The reasons for rising competition vary considerably across the diverse set of industries

encompassed by the service sector. For example, one common explanation is government deregulation. In industries such as telecommunications, banking, healthcare and airlines, the break-up of monopolies and changes in product market regulations have significantly altered the competitive landscape (Batt & Keefe, 1998). A frequent corollary has been the entrance of non-union competitors, the decline of union power, and as a result, lower and more unequal wages (Dinardo, Fortin, & Lemieux, 1996). This explanation does not hold, however, for rising competition in other service industries. Particularly in retail trade, government regulation has never been strong and unions have been virtually absent (except in grocery stores).

Rather, it is the logic of capitalist markets that has taken the retail industry from the small mom-and-pop stores of the early 1900s to the corporate-owned chains of today. The most important trend is the "overstoring of America." That is, the retail market has matured and become progressively more saturated over time, to the point where many analysts see the industry as highly congested and overbuilt. In such an environment, margins become smaller and smaller and competition in turn increasingly focuses on cost-reduction.

Several responses to this maturation have emerged, starting during the watershed years of the 1970s when recessions and inflation put additional pressure on retailers. Most important has been the increasing consolidation of the industry – the growth of large firms and holding companies that can capture economies of scale and expand their share of a stagnant market by diversifying across product lines. Thus while retail firms are still smaller than average (almost three-quarters had less than 10 employees in 1992), in fact the sector is bifurcated between a core of large firms surrounded by a mass of smaller firms (U.S. Department of Commerce, 1992). Among department stores and eating and drinking places, the number of employees per firm

more than doubled between 1972 and 1987 and rose more than 30% for the retail sector as a whole (Gallo, 1994).

This trend has been driven by the emergence of two new market entrants. First are the so-called "category killers." These are specialty stores that focus in-depth on a single product line and that have significantly upped the ante for the general retailers. Second are the mass discounters, who use their size and tight relationships with suppliers to offer every-day-low-prices that are almost impossible to undercut.[6] Since the retail market is no longer growing, these two new players have succeeded by encroaching on the territory traditionally held by department stores. The combined sales of Toys-R-Us, The GAP, Wal-Mart, and The Home Depot accounted for only 1.6% of GAF (General Merchandise, Apparel and Furniture) sales in 1985, but by 1991 their share was 12.4%. Similarly, the office supply business, which barely existed at the start of the 1990s, is now dominated by Office Depot, Staples, Officemax, and Bizmart, which account for nearly 90% of the business (Weiss & Lummis, 1995). Retail consultants predict that by the year 2004, the top ten specialty retailers will control 40% of their market and the top ten discount chains 90% of theirs (Petras & Petras, 1994).

Finally, as in other industries, the increased power of shareholders in the stock market has contributed to rising competition focused on cost reduction. During the 1980s, control over financial resources was shifted away from the corporation and toward the market (Appelbaum & Berg, 1996). Most important was the strong rise of institutional investors, who put much greater pressure on managers to place shareholder value ahead of other interests. Closely related is the

---

[6] This is the one place where government deregulation has had some impact on the industry. The gradual relaxation of Resale Price Maintenance statutes has contributed to the ability of discounters to offer extremely low prices. Similarly, the Robinson-Patman Act of 1936, which was intended to protect small businesses, actually encouraged the large discounters via a loophole that allowed manufacturers to give quantity discounts when selling directly to retailer, without the middleman of broker.

growth of corporate takeovers, the threat of which imposes strict performance discipline on firms – maximize profits or be swallowed up. The result of these changes is that the continued boosting of share prices has become the key performance measure on which corporate executives are judged. The focus is on short-term performance and "results-driven" restructuring that pays off immediately (see also Christopherson, 1997). Retailers have been especially susceptible. Because the industry constitutes such a significant percentage of GDP, retail earnings are watched like a hawk on Wall Street – quarterly and even monthly performance by the large firms translate immediately into stock-price adjustments.

THE ASCENT OF THE WAL-MART MODEL

The upshot of these changes is an industry where cost containment has become the absolute bottom-line, where competition is intense and unceasing and where margins are razor-thin. What has this new environment meant for firm strategies, and by extension, for worker outcomes?

It should come as no surprise that the high-performance workplace has not come to dominate the retail sector.[7] A rough but telling indicator is job quality. Retail wages for non-managerial workers averaged $7.58 an hour in 1996 and have actually fallen over the past thirty years as compared to the national average (see Figure 1). Some variation does exist, so that workers in auto dealerships averaged $10.86 an hour whereas those in restaurants and fast-food chains averaged $5.79. Still, jobs in retail trade are clearly not well-paid and benefits are hard to come by. Pension coverage for full-time workers was 34% in 1993. Only 62% of employers sponsored health plans, with less than two-thirds of workers participating. Part-time workers

[7] The following data are drawn from U.S. Department of Labor (1997), U.S. Department of Labor (1995), and Gallo (1994).

have clearly become the archetype of employment in retail enterprises: between 1960 and 1993, average weekly hours for non-managers fell from 38 to 28.[8]

Figure 1. Hourly wages of non-managerial retail workers (in 1996 dollars)

These are not indicators of a high performance strategy focused on rewarding skilled workers for their input. And yet, the firm strategies that do dominate can also not be considered low-road, despite the overriding emphasis on cost cutting. The leading retail strategy to emerge since the 1970s is what one might call the "Wal-Mart model." First and foremost, it is characterized by an extremely efficient production process, where the operations that make up the heart of the retailing are increasingly streamlined and linked in a continuous "just-in-time" chain. These operations are (1) buying products from manufacturers or vendors, (2) distributing them to the retail stores, and (3) selling them to customers. Inefficiencies in any segment of this chain are costly. Under-stocking of products causes customer dissatisfaction, as do outdated

[8] In 1996, 28.3% of men and 46.3% of women worked less than 35 hours, but since these numbers include managers, the actual percentages for front-line workers are likely higher (National Retail Institute, 1997).

items and lack of selection. Over-stocking of products and long delays until store delivery results in sunk costs for the firm, some of which may never be recovered. Failure to negotiate low prices with wholesalers on the back end of the operation means not being able to compete with low prices at the front end of the store. In combination, the likely result is loss of market share and in the extreme, bankruptcy.

Starting with the premise that its stores would compete with every-day-low-prices, Wal-Mart has attacked this coordination problem on several fronts.[9] At the core of its strategy lies an extremely efficient system of inventory management, called Retail Link. Wal-Mart pioneered the concept of using technology to manage inventory, and in recent years has invested some $600 million in its information system. When scanning barcodes, cash registers record and track every sold item in real time and thus allow an up-to-the minute and computerized inventory. This inventory is then linked back to both the warehouse distribution centers and the vendors that supply the centers. Replenishment of stocks in the stores is automated, allowing immediate transmission of reorders (via hand-held computers) and ensuring a steady movement of just the right number of products from the manufacturers to the stores. Wal-Mart is continuing to add to this powerful infrastructure, implementing 30 new systems such as wireless and movable registers for lawn and garden centers, automated check and refund verification, and markdown update systems (Halverson, 1994).

Another component is how Wal-Mart tightened its relationship with suppliers. It has increasingly focused on a core, manageable set of suppliers and put pressure on them for bigger economy-of-scale discounts, help in delivery and stocking of products, product testing and

---

[9] The following material draws on an enormous literature in the industry's trade magazines, such as *Discount Merchandiser*, *Chain Store Age*, *Discount Store News*, and *Retail Control*. See also Stalk et al (1992) and Ortega (1998).

development, and even total dedication to supplying only Wal-Mart. In 1991, the company further streamlined the process by cutting out the middleman of broker and instead dealing directly with the manufacturer. Thus one of Wal-Mart's biggest suppliers, Proctor & Gamble, can examine summary sales data and create orders and ship them on its own initiative – substantially reducing inventory on both ends. These close relationships were further cemented when Wal-Mart recently announced that it would open a more detailed sales database, previously held in tight secrecy, to its vendors (Nelson, 1998). The goal is to increase the ability of vendors to perform their own long-term analysis of sales patterns and customer buying habits, thus better tailoring their products to the company's market. The upshot is that many operations previously done in-house are being off-loaded onto vendors.

Wal-Mart's integration of the entire supplier-distribution chain may seem straightforward, but it is in fact extraordinarily difficult to achieve. As of August 1998, the company was selling thousands of products in 2,820 stores in the United States, manned by 720,000 workers. These stores were supplied by 41 distribution centers and served more than 90 million customers weekly.[10] The sheer scale of this coordination task is immense – and yet, Wal-Mart is apparently pulling it off, in what is widely considered the most efficient model in the industry.

In contrast to this taut efficiency, little attention is paid to the human resource side of the equation. Sales jobs in retailing are often low-wage and dead-end, and Wal-Mart is no exception. Heavy company publicity to the contrary, these are not good jobs. Front-line workers are called "sales associates" in line with the industry's attempt to raise the status of such jobs. Yet in truth the associates basically ring up sales, stock and neaten shelves, and handle lay-aways. Interviews

---

[10] Wal-Mart fact sheet: http://www.wal-mart.com/newsroom/index.html.

with workers paint a consistent picture.[11] Pay is low, raises are small, work schedules change constantly, and the famous "open door" policy for complaints can quickly become a route to early exit. The company exerts tight control over its payroll expenses, so that if demand is slack, associates are asked and in some instances even required to leave their shift early. Working more than 35 hours is considered a major infraction, since this incurs federally mandated overtime pay (Styles, 1992). Part-timers often work full-time hours without getting the corresponding benefits. Stress as a result of understaffing is frequently mentioned. One particular practice is well known. When Wal-Mart opens a store, it hires more workers than it will eventually need in order to help with set-up. After several months, the excess is then let go. The company's employee handbook hints at this practice, and warns that even making it past the "new hire" period of 90 days doesn't mean "that you have a permanent job."[12]

The tenor of these accounts is reflected in several measures of job quality. Starting wages for new employees are either at or close to the minimum wage. Raises are given yearly and not guaranteed, with a ceiling of 25 to 30 cents an hour. Even department heads start at only $7.00 an hour (Styles, 1992).[13] This low pay is exacerbated by the lack of opportunity to accumulate a sufficient number of hours per week to produce a livable pay-check. For at Wal-Mart, full-time is defined as 28 hours or more. This somewhat odd definition allows Wal-Mart to increase the hours of its workers when needed, without hitting up against the mandatory over-time limit. Thus while on average two-thirds of the company's workers are formally defined as full-time, most

---

[11] Wal-Mart does not give researchers access to its stores. We interviewed workers off-site, talked with an ex-manager, several union leaders, and analyzed company literature, business materials, as well as a website devoted to Wal-Mart horror stories: members.aol.com/walmopboy/abuse/strl.htm.

[12] *Welcome to Wal-Mart Associates Handbook*, February 1989. Workers also complain about the strict company policy that relatives cannot work in the same store and that co-workers cannot date.

[13] One store manager complained that he was continually fighting headquarters (unsuccessfully) because he wanted to pay his workers more – but then the company would complain about high turnover.

are in reality only working part-time. Health benefits are available to full-timers, but they must contribute 40% from their own paychecks (a significant deduction at $5 or $6 an hour) and so only around 75% of the employees are enrolled (Uchitelle, 1993).

Finally, there is no pension plan, though the much-touted profit sharing plan is meant as a substitute. This ESOP is primarily invested in Wal-Mart stock, which is not federally insured and which has lost value in recent years. Workers can access their full balance only through retirement or after seven years with the company. Publicized "get-rich" stories aside, few workers benefit from this system. Between high turnover and low pay, fewer than 1 out of 50 past and present Wal-Mart workers has accumulated $50,000 or more in stock (Ortega, 1995). In this context of low job quality, it should not be surprising that the company has a long history of union busting and trains its managers in union-avoidance.

The Industry Follows Suit

Alternatives to the Wal-Mart model do exist, in specialized niche markets where the nature of the product or the customer market requires skilled, flexible, and autonomous staff. But in the main, what we see in retailing is a restructuring model based on technology and process, not on human resources. The reason is that this model is highly profitable: in 1998 the Wal-Mart juggernaut registered sales of $117.9 billion. The company outperforms other retailers on most measure of productivity and performance, and as a result, has put enormous pressure on laggards in the industry to follow suit.[14]

---

[14] On average, the company has grown nearly 25% a year, with a 32% return on equity. It has the highest sales per square foot, inventory turns, and operating profit of any discount retailer (Stalk et al., 1992). Gross Margin Return On Inventory (GMROI) at Wal-Mart is 1.41, compared to the industry's 1.29. Because the company earns more on its inventory investment, its operating profit margin is higher as well, at 7% compared with the industry's 6.3%. Wal-Mart's net profit is 4% of sales, compared with the industry average of 2.9% (Saporito, 1989).

For example, the new "just-in-time" technologies are all the rage in the industry and are fast nearing the point of becoming *sine qua non* (Hartnett, 1994). Department stores and other retailers are now making increasing demands on their vendors, in what has been dubbed the "power retailer" movement (Ross, 1996). Retailers cut front-line sales staff by an estimated 10 to 30% during the 1990s, so that stores located in malls and shopping centers may actually open and close with just one employee (Steinhauer, 1997). Organizational changes to heighten efficiency are everywhere evident, driven by two influential *Harvard Business Review* articles that call for retailers to focus on their "core competencies" and "capabilities" (Prahalad & Hamel, 1990; Stalk et al., 1992). At times this takes the form of centralizing and consolidating all parts of the operation, at other times it takes the form of subcontracting peripheral operations; often both are practiced within the same firm (Noyelle, 1990). In Coopers and Lybrand's 1997 survey of over 400 of the fastest growing U.S. businesses, 83% reported using outsourcing, a significant increase from the 64% of three years prior. Operations that were outsourced run the gamut from janitorial services and preparation of ingredients for fast-food chains, to payroll and hiring (Business Wire, 1997).

The common theme underpinning these changes is that the stakes in retail have been raised and that significant restructuring is required in order to remain competitive. But the emphasis here is on reengineering process, not the management of human resources. The lesson for researchers and policy makers is that the absence of high performance does not mean lack of performance. There is still a sense that high performance is the superior production strategy and that firms, which do not practice it, are not as productive. Yet the Wal-Mart model shows that alternative strategies have emerged in the post-industrial economy that do not emphasize human resources but which are nevertheless highly efficient and profitable, and in the case of retailing,

perhaps more so. This may help to explain the continuing puzzle of why the high-road has not been adopted wholesale by American firms: at least in retailing, it is hard to see the advantages of high performance.

This is especially true given the constraints of what one might term "path dependency." That is, in much of the retail industry the task content of front-line jobs has historically been low, segmented, and Taylorized, requiring little skill or training.[15] There have already been large investments in the machinery and processes surrounding these low-skill jobs, often tied to other firms in a supplier network. In this context, the potential gains from focusing on improving the productivity of operations far outweigh those that might be reaped from instituting a wholesale change in how human resources are deployed – the risks and costs are lower. What would convince McDonald's to shift its production-line system to one based on skilled workers, given the enormous start-up costs and the amount of capital it has already sunk into designing its kitchen around low-skill labor? How would Macy's go about creating work teams that are productive enough to support higher wages, given that its sales staff makes money by interacting with the customer and the cash register, not with other workers?

A recent article illustrates just how barren and limited the approach to human resource management is in retail trade. Uchitelle (1993) quotes the vice chairman of Wal-Mart: "We hire no one at the minimum wage; we base our pay on the marketplace ... If Kmart is paying $5 an hour, we'll pay $5.25 or $5.50; and if the competitors are paying $4.50, we'll pay $5."

This is clearly a daunting context in which to attempt a reform of job quality and wages. Nevertheless, the hope is that a high-road strategy might still be viable in the service sector. This

---

[15] Thus the Wal-Mart model is not so much an innovation as a reification of an already existing paradigm – but implemented with levels of efficiency and coordination that are usually thought characteristic of high-

argument stems from the idea that there is something inherently different about service jobs as compared to those in manufacturing. The core of service work requires interactions with and management of customers. It is a sphere where the delivery and quality of the product – in this case a service – is ultimately controlled by the worker (Batt, 1998). Thus theoretically at least, interactive service work is not as amenable to Taylorization or the engineering approach to work design typical of manufacturing (Herzenberg et al., 1998). In fact, it would seem to encourage a human resource strategy aimed at improving the skills and input of the worker, especially since quality customer service has become increasingly important as a basis for competition. The idea is that better service will require better skilled workers, more reliance on their autonomy, greater investment in training, and by extension, better wages. This is the argument of a much-cited article, in which Schlesinger and Heskett (1991) posit that the inattention to the front-line workforce in the service sector causes problems for the bottom-line. There is a cycle of low wages, little training, low morale, and high turnover, and this leads to customer dissatisfaction and therefore loss of sales. Their prescription includes a focus on "increased worker discretion in meeting customer needs", the "empowerment" of front-line workers to carry out their customer contact roles, "integration of employees into a winning team", and "concentration on quality at the service core." While a plausible argument, the question is how the quest for quality service has actually translated on the ground.

CUSTOMER SERVICE AND SEGMENTATION

In retail, as in other industries, firms can either compete on the basis of cost (low prices) or on the basis of quality (superior products). In an environment where everyone is being driven

---

performance firms. As such, it has made deviation from the high-profits/low-skills strategy increasingly difficult in the industry.

to the same common denominator of low prices, and where giant discounters almost invariably win the price game, it is natural that firms will try to seek out other dimensions on which to differentiate themselves. Since the mid-80s, in a faint echo of the principles being adopted in manufacturing, the retail industry has given much press to the idea that providing quality customer service is the new route to survival in a highly competitive environment. Elite retailers in particular have taken this strategy, since many of their high-end products are now being sold at ordinary outlets. To wit, if Ralph Lauren clothes can now be had in most major department stores, establishments such as Bloomingdale's must offer something more to retain high-income customers, namely quality service by well-heeled sales staff. But industry analysts argue that the "quality edge" is a must across the board, and so from the glossy department stores and upscale grocers down to mall outlets and fast-food chains, managers are proclaiming that they have instituted new workplace practices and training designed to enhance the service experience, "to foster loyalty and develop an ongoing dialogue with a retailer's best customers" (Chain Store Age, 1996b).

In fact, however, two very different definitions of customer service have emerged. The first is the most intuitive, stressing personalized and in-depth service. A classic example is Nordstrom's famed sales workers, who are essentially personal grooming consultants who build long-term relationships with their upper class clientele, informing them of sales and new products, setting aside items and even making purchases for the customer over the phone. This practice is called "clientelling" and has spread in the industry. So for example, at Harry Rosen menswear stores, sales associates can access a client database and submit structured queries about a customer's buying habits, in order to tailor their service. A more common example is The Home Depot, which specializes in hardware and building supplies. Sales staff are typically

older men who have career backgrounds as carpenters, plumbers, and electricians and who can give detailed instructions and advice to the do-it-yourself customer.[16] For those who don't have the time, the company has recently instituted Expo centers, showing model designs for the kitchen or bathroom and providing 2,300 independent contractors and installers who will come to the home and do the installation. In these and other examples, quality service in the traditional sense of the term is indeed being offered. The strategy is working, since Home Depot is seriously threatening other retailers who sell the same products but do not offer the same service, especially small family-owned hardware stores.[17]

The second definition of quality service is counter-intuitive. It eschews lengthy encounters with sales staff and instead stresses the ability to provide the customer with fast, no-frills service and cheap products. What matters is that (1) the newest products are (2) always available and (3) at the best possible prices. The market being tapped here is consumers who are pressed for time, who shop for value, who know what they want and get annoyed at invasive sales staff.[18] This "self-service" market has grown rapidly since the 1970s, driven by the growing labor force participation of women, the increase in working hours, and the stagnation of incomes (Weiss & Lummis, 1995). It is what Wal-Mart's efficiency-driven model targets and what enables the company to boast that it excels in providing customer service, even though its front-line workers simply work the cashier register or stock shelves.[19] So when the company recently

---

[16] A recent in-house study found that close to 50% of the interactions between sales staff and customers went beyond rudimentary information (pointing to item locations) and entailed in-depth consultation. This is very unusual for the industry as a whole.

[17] It should be emphasized, though, that Home Depot also works because it offers every-day-low-prices that smaller stores find extremely difficult to undercut.

[18] According to a study by KSA, 71% of customers choose stores where they can check out quickly (CSA, August 1996, p. 90).

[19] The exception is the "greeter" at the front door of every store, which Wal-Mart gives much press to.

announced a new "service" initiative, it meant that stores will offer mailing centers, hair salons, and perhaps even computer repair and travel agencies … not well-rounded sales staff who would give assistance in the choice of toothpaste or garden rakes (Hisey, 1996).

Even among retailers who argue that they are pushing for "deep" service, the underlying strategy is often the opposite. A good illustration is the way that one the nation's leading fast-food chains responded to encroachment by its competitors.[20] In the early 1990s the company launched a Total Quality Management program that was meant to empower workers and give them input into daily operations. The idea was workers would have more commitment to the firm, customer service would improve, and market share would increase. Yet several years after the program was instituted, almost no one remembers it and few of the fledgling initiatives, such as team meetings, are still in place. Wages have not increased, turnover remains high, and the program has basically boiled down to several superficial changes.[21] By contrast, during this period the company put considerable effort into continuing with what has always been its core strategy, producing cheap food quickly. It began a wave of price cuts and new product offerings. Most important, the company drew on its large in-house R&D laboratory, which conducts time-and-motion studies on such processes as how many seconds it takes to fry a patty or assemble a hamburger. The result was a new set of technologies and machines that speeded up an already streamlined kitchen and cut the number of workers needed to operate them – in one restaurant, the kitchen staff was reduced from 7 to 5. This refitting will cost close to $200 million

---

[20] The company did not wish to be identified.

[21] For example, workers at the cash register are now able to personalize the six-step greeting script that had previously been mandatory, give three packets of ketchup instead of two when requested, or refill spilled drinks without the supervisor's permission.

altogether. In the final analysis, this is clearly an enterprise that subscribes to a process-driven business strategy, not one focused on human resources.

The Effect on Workers

Thus there are two distinct routes to competing on the basis of quality service, both of which are productive and profitable. But it is important to understand that effects on the workplace and job quality differ markedly. In markets for high income customers or products requiring expert advice, multi-skilled and better trained workers are required – they need to have the technical background to give advice, the soft skills to build relationships with customers, and the ability and knowledge to make decisions on their own. In these niches, jobs are often above average for the industry. Workers at The Home Depot make significantly more than the average retail worker,[22] almost all are full-time with benefits, and turnover is quite low, 30% at entry level – all of these are extremely unusual characteristics in the retail industry. Since the company puts great pride on decentralized management, departments within the store are run autonomously, and hourly sales associates have considerable power; for example, they can place an order as high as $17,000 from a manufacturer without contacting a supervisor. Clearly none of these characteristics hold at the mass discounters or fast-food restaurants, where part-time work at wages barely above the minimum wage is the norm.

A good illustration of the diverging trends in customer service is given by two major department stores, Bloomingdale's and Stern's, which are both owned by the national holding company Federated. Bloomingdale's serves high-income customers with in-depth service. Sales associates have more autonomy than is the norm in this industry, with responsibility for

---

[22] An average of $9.80 in 1995.

transactions, returns, special ordering, and mark-downs.[23] Clientelling, the practice of establishing long-term relationships with individual customers, generates 30% of sales. The company has reduced the percent of part-time workers to 20%, and turnover is low, at 45%. A significant amount of money is spent on recruiting cream-of-the-crop, sophisticated, polished workers with good people skills. Wages are at the top of Federated's hierarchy, all workers get benefits, and elite departments run on commission.

By contrast, Stern's department stores target middle- and working-class customers. Much less emphasis is placed on individualized service; instead, marked changes have taken place in the store's buying structure and vendor relations. This is because Stern's was part of Federated's overall reorganization, and the result is a more centralized, streamlined process using the new technologies and cash registers. (Bloomingdale's has not benefited as much from the reorganization because it has historically been a "special case" and has had its own infrastructure). Predictably, sales workers at Stern's have less autonomy and are more constrained. For example, they must make eye contact within 30 seconds and greet customers within two minutes -- the stores are routinely shopped to ensure adherence to this and other rules. Only 40% of staff are full-time, turnover is around 65%, and there has been an increase in temporary, on-call "flyers" workers. In 1997 wages in New York City started at $7 an hour and topped out at $12 an hour (though this requires a tenure that few ever reach). The typical annual raise is 30 cents.

The comparison should not be overdrawn. In both stores, workers and union representatives report a significant increase in stress levels and productivity demands.

---

[23] A vice president of training and development, however, stressed that this "empowerment" has been driven by the need to better service customers, not because of any managerial philosophy.

Performance-based pay, a major move in the industry, has been instituted in both stores for those not already on commission. These "incentive systems" usually consist of some combination of base-line pay, with any additional earnings dependent on amount of products sold. There is usually also some threshold level of performance that must be reached, for example, bringing in enough sales to cover one's percent of payroll in one's department. By all accounts, these pay systems exert much more pressure on workers and (frequently mentioned) cause competition between them. For those Bloomingdale's workers who are part of the clientelling program, a common complaint is that customer names are given to more than one sales worker, pitting them against each other in winning that customer's loyalty. Still, on balance there is a distinct difference between these two stores in the quality of front-line jobs, driven to large degree by the customer market being targeted.

In sum, the two definitions of quality service – depth versus speed – are based on a segmentation of the customer market and are yielding a segmentation of job quality.

> Some firms may choose to compete for larger shares of standardized products produced by low wage workers carrying out relatively simple tasks. Other firms may choose to tailor production to a high value-added, high quality product at the upper end of the same market. Both strategies may prove successful in generating profits, but with quite different consequences for workers' wages (Levy & Murnane, 1992, p. 1374).

This trend has likely contributed to rising wage inequality within the retail trade industry over the past several decades. Moreover, this segmentation of the consumer market has come to characterize many service industries. For example, Tedlow (1990) documents the transformation of national mass marketing to segmented marketing based on age, income, education, region and lifestyle, through practices such as "traiting" (Hisey, 1996). Market segmentation has emerged as a major strategy in such varied sectors as telecommunications, banking, and grocery stores (see the review in Batt, 1998). It is a conscious strategy frequently advocated in the private sector, as

evidenced by a Wall Street Journal editorial on the "collapse of the middle" in U.S. product markets (Morrison, 1996). But within the retail trade, it is important to understand that the market segmentation is not balanced. High-quality service and skilled sales jobs are evident only in specialized markets and do not represent what the majority of firms are practicing – on balance, the "no frills" Wal-Mart version dominates.

TECHNOLOGY AND ITS SELECTIVE IMPACT

If the push for quality service has generally not resulted in an upgrading of retail jobs, perhaps technology can do the job. This is after all one of the dominant themes of recent scholarship on the post-industrial economy: that the rapid influx of new information technologies into the workplace is increasing skill requirements and the demand for educated workers and otherwise fundamentally changing the American workplace (cites). This theme is the motivation for much of recent training and education policy. It is also one of the leading candidates for explaining why less-skilled workers have seen their wages decline over the past thirty years (Bound & Johnson, 1992; Krueger, 1993).

As intimated above, technology has indeed had a profound impact on the retail industry. The just-in-time linking of all parts of the retail "production" chain would be impossible without new electronic technologies that allow for instant transmission of in-stock quantities, sales patterns, and price and product changes. The numbers and types of technologies used in this industry are truly astonishing.[24] The key element is the product barcode, which can be scanned by computers at the manufacturer, the distribution center, and the retail store. Information on product quantities is linked across the three sites by Electronic Data Interchange (EDI), thus

---

[24] This discussion draws on a mass of articles from the industry trade literature (see footnote #9 above), as well as Brandowski (1992) and Halverson (1994).

enabling merchandise tracking and computerized reordering. A host of other technologies and practices, such as Quick Response, interact with this basic system. Computers have also had a major impact on staff scheduling, in the past a time-consuming and inefficient process. Scheduling software finds the most efficient and least costly allocation of labor, taking into account worker availability, payroll budget, individual skills, and productivities – its advent has reduced retailer's payroll costs an average of 2 to 10% (Barringer, 1995). One of the newest innovations is the "Data Warehouse," which contains fine-grained information on sales and enables managers to centralize buying, test the relationship between promotions and sales, and identify bundles of goods that are usually sold together (Aufreiter, Karch, & Shi, 1993). Wal-Mart's data warehouse is second in size only to the U.S. government's, containing 2500 plus variables to profile local markets and tailor assortments. The company receives about 100,000 queries a week from suppliers and buyers looking for purchase patterns (Nelson, 1998).

These and other technologies, while relatively new, have already made a deep penetration into the industry. As one review put it, baby boomers changed what retailers bought and sold, but technology changed operation and distribution, and in a short time span at that. The leading trade magazine, *Chain Store Age*, conducts an annual survey of technology use. While in 1992 the main focus of the survey was point-of-sale (POS) terminals, by 1996 the focus had shifted to client/server systems. In 1998, the survey focused on data warehousing and Internet use, and the lead article was entitled *Can Technology Be Any More Pervasive?* (Chain Store Age 1998).[25]

---

[25] In 1986, only about 45% of retail respondents had converted to POS terminals from mechanical or electronic cash registers (Robins, 1992). But the 1996 *CSA* survey did not even ask about POS terminals, and instead reported that close to half (47%) of responding firms had a client/server system, and another 44% planned to have one within less than two years. The firms said they planned to increase capital spending on information technology to an average of $6.1 million in 1996, an increase of 22% over the previous year (Chain Store Age, 1996a).

Yet the effect of technology has been primarily on the back-end of the retail operation. There is a big disjuncture between the transformation of the production process and the lack of transformation of the actual tasks that most retail workers perform. To the extent that sales workers have been affected, the most direct result has been to eliminate jobs. The task of affixing price labels to every item in the story was once time-consuming, especially when prices changed or during sales, but is now becoming obsolete with the advent of barcodes. The counting of products in stock, once done manually by a slew of workers at night, is now increasingly done either automatically (i.e., when cash registers record that a product has been sold), or by fewer workers who use hand-held scanning computers. The growing practice of having outside vendors stock their own pre-packaged and pre-priced products (and sometimes even sell them) also reduces the amount of in-store labor needed. This type of effect is also seen at the back end of retailing, the warehouse, where increased computerization and scanning has actually reduced the need for skilled labor, or labor altogether.[26]

In addition, there are several indirect effects of the new technologies. The amount of "dead time" that retail workers spend on tasks such as stocking and pricing – tasks that do not increase sales – has been reduced. But this does not necessarily mean that technology has freed workers from mundane labor.[27] For example, while a greater percentage of time is spent on the selling floor in department stores, it is often with tougher sales goals and more electronic monitoring of productivity, an increasingly widespread practice in the industry. Even the high-end sales workers at Nordstrom's, while well paid, work under commission and are under intense

---

[26] At managerial levels, however, there have been strong effects. EDI has eliminated a considerable amount of paper work, not just for inventory but also for proofs of delivery, purchase orders, and money transfers. Managers thus spend much less time on paperwork, inventory, and scheduling, and more actually managing or even selling. This in part has allowed the trimming of managerial ranks in the industry.

pressure to meet their quotas, working off the clock and facing a real threat of dismissal if performance is not up to par (Faludi, 1991). From focus groups and interviews, we found that these practices have apparently increased the stress level of these jobs, especially when combined with the overall reduction in staffing discussed above. A similar increase in stress obtains in other types of retail outlets, such as mass discounters and grocery stores. Here, the main front-line manifestation of new technology is the scanning cash register, which ironically has made an already monotonous job even more so (no more price checks, no more need to memorize prices) while at the same time speeding it up considerably.

Thus technological change has had a strong effect on efficiency and productivity and is in large part responsible for the dominance of the Wal-Mart model of retailing. But it has generally not brought an upskilling of core front-line jobs. Retail trade currently has one of the lowest rates of computer use on the job of all the major service sectors (Gallo, 1994). In 1993, 29.1% of sales workers used a computer at work, 4.5% used word processing, and 2.7% used e-mail (U.S. Department of Labor, 1993). There is certainly little evidence of the type of pronounced impact on task content and complexity, coupled with increased training and screening in hiring, that is usually associated with high technology. Thus the hope that the rapid rise in technology might provide the impetus for a high performance strategy in this industry is unlikely to be fulfilled in the near future.

DISCUSSION: THE PROSPECTS FOR CAREER MOBILITY

For the more than one in six Americans who work in the retail trade industry, the average job offers wages of $7 an hour, short and uncertain work schedules, few benefits, and

---

[27] One union leader in fact lamented the severe reduction in stock clerks in the industry, since in the past this position, often held by African American men, could lead to a well-paid, unionized warehouse distribution job.

monotonous tasks that are increasingly being speeded up. Nor is this situation likely to change. The dominant business strategy to emerge out of the past three decades – what we have termed the Wal-Mart model – has done much to revolutionize the industry but little to boost job quality. New technologies lie at the center of this model, but they have generally not been directed at improving the actual work that sales staff does. As a result, front-line jobs have mainly gone untouched, or else been automated out of existence, deskilled, or redistributed. Alternatives to this strategy do exist, and there are niche markets where skilled workers are necessary and therefore paid above average. On balance, however, the Wal-Mart model dominates. It is highly efficient and profitable and will continue to prevail in the foreseeable future. It will also continue to affect a substantial number of American workers. Of the top ten occupations with the largest project job growth between 1996 and 2006, cashiers and salespersons rank first and fifth, respectively (U.S. Department of Labor, 1998).[28]

This does not augur well for job quality and worker welfare. One common argument given in response is that the retail sector (and other low-wage service industries like it) simply serves as a temporary way station for most workers. The image is of teenagers earning extra spending money, mothers wanting to get out of the house for a few hours a week, retirees looking for something to occupy their time. But this is a misleading or at the very least outdated picture. For example, in 1996 only 16% of workers in this industry were between the ages of 16 and 19. Another 16% were aged 20 to 24, still young but already hitting the stage of early career development, especially for those who stop their education at high school. Fully 44% were age

---

[28] In the 30 months that followed the 1991 recession, Wal-Mart alone generated 153,000 jobs, a significant share of the 1.9 million net increase created during that time span (Uchitelle, 1993).

35 and older (National Retail Institute, 1997).[29] These numbers support a recurrent theme from our interviews and industry materials, that retail workers are increasingly dependent on their jobs for their long-term livelihood: part-timers who are patching together several jobs and want full-time hours, and women who are either supporting their family or supplementing its income with badly needed cash. The industry's workforce has become more mixed in other ways as well. During the recessions of the early 90s, more than a few laid-off managers and technicians were lining up for discount store jobs, a phenomenon well covered by the press (Seskin, 1992; Uchitelle, 1993).

But regardless of whether one is talking about teenagers, middle-aged fathers or working-class women, in all cases there is also the deeper question of opportunities for upward mobility. Currently, these are not good. The retail industry has one of the flattest job hierarchies in the economy – sales and service occupations make up more than two-thirds of the jobs, and the average ratio of managerial to front-line workers is 1:15 (see Table 1). In many sectors, the ratio is even lower. A typical Wal-Mart store has one store manager, four assistant managers, and then 235 non-salaried workers (Styles, 1992). This lean structure reflects the growing trend in the industry towards a reduction of managerial layers. Moreover, firms are now more likely to hire from the outside when filling managerial positions, bringing in young college graduates and bypassing workers with 10 years of tenure. A similar result obtains from the growing popularity of outsourcing, which creates "islands of unrationalized labor-intensive and tightly constrained

---

[29] Moreover, the demographic trend toward an aging population means that more prime-aged Americans will be filling the retail jobs of the future and will be depending on them for career earnings. In fact, this shrinking of the youth labor force is much discussed in the industry. A recent issue of *Chain Store Age* offered the solutions of better incentives (e.g., Starbuck's stock options) and alternative labor pools (e.g., welfare-to-work). The latter possibility prompted one analyst to offer the prescription: "Deskilling jobs is an option that allows a company to use a broader pool of workers" (Friedman, 1998, p. 43).

work" that are effectively separated from any internal career ladders (Herzenberg et al., 1998, p. 110).

Table 1: Retail trade occupations, 1996

Occupation	Percent of
Sales and marketing	35.9
Service (includes food preparation, waiters and	31.9
Clerical and administrative support (includes stock	12.7
Executive, administrative & managerial	6.4
Operators, fabricators & laborers	5.9
Precision production, craft & repair occupations	5.1
Professional specialty	1.4
Technicians & related support	0.6
Other	0.2

Source: U.S. Department of Labor (1996a)

Thus there is currently a severe structural constraint on upward mobility, no matter how talented or hard-working the individual. It is unclear the degree to which this represents a change from the past, since we have little data on retail mobility over time. But the reduction in managerial layers (especially the lower-level supervisory jobs that in the past may have allowed for a career ladder of sorts) certainly suggests that there are now fewer routes to internal mobility, especially for those without postsecondary education. The growing use of external hiring for positions higher up the ladder can only serve to exacerbate the problem. From a longer-term perspective, it seems clear that mobility chances have deteriorated.[30] For example, in the 1950s department stores had career paths that enabled one to reach high-status sales positions or move on to become a merchandise buyer (Bluestone et al., 1981).

[30] Interviews in both our case studies and others consistently yield this point (Noyelle 1990).

If upward mobility within the retail industry is so dismal, then perhaps it is possible to build a career by moving up and out to other industries. This was the counsel of an old-timer to one of our young respondents: "Keep going to college, never get trapped in long-term retail work." But for the three-quarters of Americans who never attain a four-year college degree, this is meager advice. And that indeed is the core of the problem with retail jobs and other low-wage service jobs: the incumbents who hold them are generally the least educated in the labor force. Absent a truly dramatic shift in college completion rates, the only viable route to career mobility for this population is training. This is especially true since the external career ladders that may have been accessible to ex-retail workers in the past are increasingly disappearing. For example, entry-level bank teller jobs that were once filled with high school graduates now often require at least some college experience (Hughes & Bernhardt, 1999).

Unfortunately, training is in very short supply in the retail industry. When filling slots higher in the job hierarchy, firms can choose to either "make" or "buy" their skilled workers. As indicated, the choice is increasingly to import educated workers rather than train incumbent workers. This obtains because of the logic of retail strategy. If a firm designs its production process around unskilled jobs with low-wage jobs, then it will have high turnover, which will in turn discourage any investment in training on the part of the employer. According to the American Society of Training and Development, the retail industry spends less on training than any other business sector. Retailers train employees an average of seven hours, ranking the industry last among 14 business sectors (Steinhauer, 1997). In a 1991 survey, only 9% of retail workers reported receiving formal company training and only 12% had received informal on-the-job training (Gallo, 1994). The training that does exist is increasingly computer-driven (using videos or CD-ROMs) and most often for firm-specific cash registers, unlikely to yield much by

way of transferable skills (Benton, Bailey, Noyelle, & Stanback, 1991). Thus workers in this industry can expect to gain little by way of skills that can be leveraged to move to a better job in another industry.

The Bigger Picture

The problem of mobility is not limited to the retail sector. There is a growing sense among the public that individuals' life chances are becoming more uncertain and more unequal (Frank & Cook, 1995). A new body of research is documenting that there has been an economy-wide deterioration in the extent of upward mobility. For example, Bernhardt et al. (1998) document that young adults in the 1980s and 1990s experienced significantly lower wage growth during the critical years of career development, as compared to young adults in the 1960s and 1970s. What is more, that wage growth has also become progressively more unequal and polarized. While there remain workers who enjoy significant wage increases over their career, there are now substantially more workers who see minimal and even negative wage growth (in real dollars).[31]

These findings underscore that the rules of work and career mobility have changed that a fundamental reorganization of work and production is underway in the American workplace. The challenge to policy makers is enormously difficult.[32] While education and training are clearly key to any solution, ultimately they will not suffice:

> Low-wage jobs exist because some work systems are not organized to raise performance in ways that might lead to higher wages. Unless those work systems are reorganized, jobs

---

[31] See Duncan, Boisjoly, and Smeeding (1996) and McMurrer and Sawhill (1998) for similar evidence along these lines.

[32] See Bernhardt and Bailey (1998) for an extended discussion of potential solutions to the problems engendered by the new employment relationship.

> for those in the lower part of the wage distribution will not pay better or offer greater career opportunities (Herzenberg et al., 1998, pp. 16-17).

At some point, we will have to ask hard questions about the business strategies that are being developed in the name of American global competitiveness – What happens to promotions, raises, and "climbing up the ladder" when employers hire externally for skilled jobs and invest less in entry-level training, especially for new technology? How does flexible staffing and reliance on temporary, part-time, and leased workers affect ports of entry and the ability to accumulate a broad set of skills? What happens when low-skill jobs are removed from the organization altogether via subcontracting and outsourcing, to firms that frequently pay less for the same work?

The traditional routes to upward mobility break down. It is likely that skilled workers in professional occupations can create new career paths that preserve their opportunities. But for occupations further down the ladder – more numerous in absolute terms – the consequences are declining opportunities for upward mobility. We might imagine that systems analysts and general managers, while not wholly protected from the vicissitudes of a volatile labor market, can still eventually find a protected "core" job, or at the very least build real wage growth as they move between employers. For cashiers, salespersons, information clerks, nursing aides and orderlies, however, the prospects look less promising. The result may well be a cadre of "migrant service workers" who move from one front-line service job to another, learning no new skills and achieving few wage gains with which to support their families (Schlesinger & Heskett, 1991).

REFERENCES

Appelbaum, E., & Berg, P. (1996). Financial market constraints and business strategy in the USA. In J. Michie & J. G. Smith (Eds.), *Creating industrial capacity: Towards full employment* (pp. 192-221). Cambridge: Oxford University Press.

Aufreiter, N., Karch, N., & Shi, C. S. (1993). Marketing in transition: The engine of success in retailing. *McKinsey Quarterly*, (3), 101-16.

Bailey, T., & Bernhardt, A. (1997). In search of the high road in a low-wage industry. *Politics & Society, 25*(2), 179-201.

Batt, R. (1998). *The changing nature of work in services* (Manuscript prepared for the National Planning Association). Ithaca, NY: New York State School of Industrial Relations, Cornell University.

Batt, R., & Keefe, J. (1998). *Human resource and employment practices in telecommunications services, 1980-1998.* Report to the New American Realities Committee, National Planning Association.

Benton, L., Bailey, T., Noyelle, T., & Stanback, T. M., Jr. (1991). *Employee training and U.S. competitiveness*. Boulder, CO: Westview.

Bernhardt, A., Morris, M., Handcock, M., & Scott, M. (1998). *Summary of findings: Work and opportunity in the post-industrial labor market* (Working Paper No. W-6). New York, NY: Institute on Education and the Economy, Teachers College, Columbia University.

Bernhardt, A., & Slater, D. (1998). What technology can and cannot do: A case study in banking. *Industrial Relations Research Association Series: Proceedings of the Fiftieth Annual Meeting, 1*, 118-125.

Bernhardt, A. D., & Bailey, T. R. (1998). *Making careers out of jobs: Policies to address the new employment relationship*. New York, NY: Institute on Education and the Economy, Teachers College, Columbia University.

Bernstein, J., & Hartmann, H. (1999). *Defining and characterizing the low-wage labor market*. Washington, DC: Urban Institute.

Bound, J., & Johnson, G. (1992). Changes in the structure of wages in the 1980s: An evaluation of alternative explanations. *The American Economic Review, 82*(3), 371-92.

Brandowski, P. (1992). Smarter quick response – Exploiting the data you have. *Corporate Computing, 1*(3), 214.

Business Wire. (1997, February 26). Outsourcing Now Used by Vast Majority of Growth Companies. *The PointCast Network*.

Cappelli, P., Bassi, L., Katz, H., Knoke, D., Osterman, P., & Useem, M. (1997). *Change at work*. New York, NY: Oxford University Press.

Chain Store Age. (1996a). Overall findings: Retailers expand IT's role. *IT Supplement* (September), 4-5.

Chain Store Age. (1996b). Seven pillars to future success. *State of the Industry Supplement* (August), 9A-15A.

Danziger, S., & Gottschalk, P. (Eds.). (1993). *Uneven tides: Rising inequality in America*. New York, NY: Russell Sage Foundation.

Dertouzos, M., Lester, R., & Solow, R. (1989). *Made in America: Regaining the productive edge*. Cambridge, MA: MIT Press.

Duncan, G., Boisjoly, J., & Smeeding, T. (1996). Economic mobility of young workers in the 1970s and 1980s. *Demography, 33*(4), 497-509.

Faludi, S. (1991). Sales job: At Nordstrom stores, service comes first - but at a big price. In J. W. Earl Sasser, C. Hart, & J. Heskett (Eds.), *The service management course: Cases and readings* . New York, NY: Free Press.

Frank, R. H., & Cook, P. J. (1995). *The winner-take-all society*. New York, NY: Free Press.

Freeman, R. B. (1997). Solving the new inequality. *Boston Review, 21*(6), 3-10.

Gallo, F. (1994). *Profile of the retail trade sector* (Prepared for an assessment on *Technology, Jobs, and Productivity in the Service Sector*). Washington, DC: U.S. Congress, Office of Technology Assessment.

Halverson, R. (1994). Logistical supremacy secures the base – But will it translate abroad? *Discount Store News, 33*(23), 107-8.

Hartnett, M. (1994). Managing change in retail logistics. *Stores* (September), 60-62.

Hays, R. H., & Abernathy, W. J. (1980). Managing our way to economic decline. *Harvard Business Review, 58*(4), 67-77.

Herzenberg, S., Alic, J., & Wial, H. (1998). *New rules for a new economy*. Ithaca, NY: Cornell University Press.

Hisey, P. (1996, February 19). Aging stores get fresh service message. *Discount Store News, 35*, p. 31.

Hughes, K., & Bernhardt, A. (1999). *Market segmentation and the restructuring of banking jobs* (Working Paper No. W-9). New York, NY: Institute on Education and the Economy, Teachers College, Columbia University.

Hunter, L. W. (1998). *Transforming retail banking: Inclusion and segmentation in service work* (Manuscript prepared for the National Planning Association). Philadelphia, PA: Wharton School, University of Pennsylvania.

Ichniowski, C., Kochan, T. A., Levine, D., Olson, C., & Strauss, G. (1996). What works at work: Overview and assessment. *Industrial Relations, 35*(3), 299-333.

Jacobs, E., & Shipp, S. (1990). *A history of the U.S. Consumer expenditure survey: 1935 to 1988* (Presented at the Annual Meeting of the American Statistical Association). Washington, DC: U.S. Bureau of Labor Statistics.

Keltner, B., & Finegold, D. (1998). Market challenges and changing employment relations in the U.S. banking industry. In M. Regini, M. Baethge, & J. Kitay (Eds.), *Changing employment relations in the banking industry* (forthcoming). Cambridge, MA: MIT Press.

Krueger, A. B. (1993). How computers have changed the wage structure: Evidence from Microdata, 1984-1989. *Quarterly Journal of Economics, 108*, 33-60.

Levy, F., & Murnane, R. (1992). U.S. earnings levels and earnings inequality: A review of recent trends and proposed explanations. *Journal of Economic Literature, 30*(3), 1333-81.

McGinn, D., & McCormick, J. (1999, February 1). Your Next job. *Newsweek*.

McMurrer, D. P., & Sawhill, I. (1998). *Getting ahead: Economic and social mobility in America*. Washington, DC: Urban Institute Press.

Mishel, L., Bernstein, J., & Schmitt, J. (1997). *The state of working America, 1996-1997*. Armonk, NY: M.E. Sharpe.

Morrison, D. J. (1996, October 21). Retail's shrinking middle. *The Wall Street Journal*, p. A22.

Moss, P., Salzman, H., & Tilly, C. (1998). *Corporate restructuring, job structure, and inequality: Implications for human resource strategies, skill development, and traintng* (Manuscript). Lowell, MA: University of Massachusetts.

National Retail Institute. (1997). *Retail industry indicators*. Washington, DC: National Retail Federation.

Nelson, E. (1998, October 6). Why Wal-Mart sings, 'Yes, We have Bananas!'. *The Wall Street Journal*, p. B1.

Noyelle, T. (1990). Toward a new labor market segmentation. In T. Noyelle (Ed.), *Skills, wages, and productivity in the service economy* (pp. 212-224). San Francisco, CA: Westview.

Ortega, B. (1995, January 4). Life without Sam: What does Wal-Mart do if stock drop cuts into workers' morale? *The Wall Street Journal*, pp. A3-A4.

Ortega, B. (1998). *In Sam we trust: The untold story of Sam Walton and how Wal-Mart is devouring America*. New York, NY: Random House.

Petras, K., & Petras, R. (1994). *Job '94*. New York, NY: Simon and Schuster.

Prahalad, C. K., & Hamel, G. (1990). The core competence of the corporation. *Harvard Business Review, 68*(3), 79-92.

Robins, G. (1992). Productivity: A look at technology ROI. *Stores,* (October), 48-52.

Ross, J. R. (1996). Are partnerships for real? *Stores,* (September), 24-30.

Saporito, B. (1989, December 18). Retailing's winners and losers. *Fortune,* pp.69-75.

Schlesinger, L. A., & Heskett, J. L. (1991). Breaking the cycle of failure in services. *Sloan Management Review* (Spring), 17-28.

Seskin, J. (1992). *Production and reproduction of Wal-Mart workers: A study of spatial, social and economic relations*. Unpublished doctoral dissertation: University of Arizona.

Shulman, B. (1996). Yes, Union. *The American prospect* 29(November–December), 77-81.

Stalk, G., Evans, P., & Shulman, L. E. (1992). Competing on capabilities: The new rules of corporate strategy. *Harvard Business Review* (March–April), pp. 57-70.

Steinhauer, J. (1997, March 4). Whatever happened to service? *The New York Times*, p. D1.

Styles, D. (1992, September 3). The Wal-Mart Way. *Arkansas Times*, pp. 15-19.

Tedlow, R. (1990). *New and improved: The story of mass marketing in America*. New York, NY: Basic Books.

U.S. Department of Commerce, Bureau of the Census. (1992). Unpublished tabulations from the 1992 Census of Retail Trade.

U.S. Department of Labor, Bureau of Labor Statistics. (1993). Unpublished tabulations from the October Current Population Survey.

U.S. Department of Labor, Bureau of Labor Statistics. (1995). *Pension and health benefits of American workers, new findings from the 1995 CPS* .

U.S. Department of Labor, Bureau of Labor Statistics (1997). Unpublished tabulations from the National Current Employment Statistics.

U.S. Department of Labor, Bureau of Labor Statistics (1998). *The 1998-99 occupational outlook handbook*. Washington, DC: U.S. Government Printing Office.

U.S. Department of Labor, Bureau of the Census. (1996a). Unpublished tabulations from the 1996-2006 National Industry-Occupation Employment Matrix. [On-line]. Available: http://stats.bls.gov/asp/oep/nioem/empiohm.asp

U.S. Department of Labor, Bureau of the Census. (1996b). Unpublished tabulations from the Current Population Survey, Employment and Earnings.

Uchitelle, L. (1993, October 3). 'Good' jobs in hard times. *The New York Times*, p. III1.

Weiss, D., & Lummis, D. (1995). *Value retailing in the 1990s: Off-pricers, factory outlets, and closeout stores*. Washington, DC: National Retail Federation.

Institute on Education and the Economy

Teachers College
Columbia University
Box 174
New York, New York 10027

BEST COPY AVAILABLE